State Controller's Office

State of Colorado Fiscal Highlights

For the Fiscal Year Ended June 30, 2004

This report provides an overview of the financial condition, and changes in financial condition of the State of Colorado in an easy-to-understand format. This report is unaudited but much of the information contained herein is from audited or other published reports deemed to be reliable. You can get additional detailed information from the State of Colorado's Comprehensive Annual Financial Report located on this website.

Financial Condition

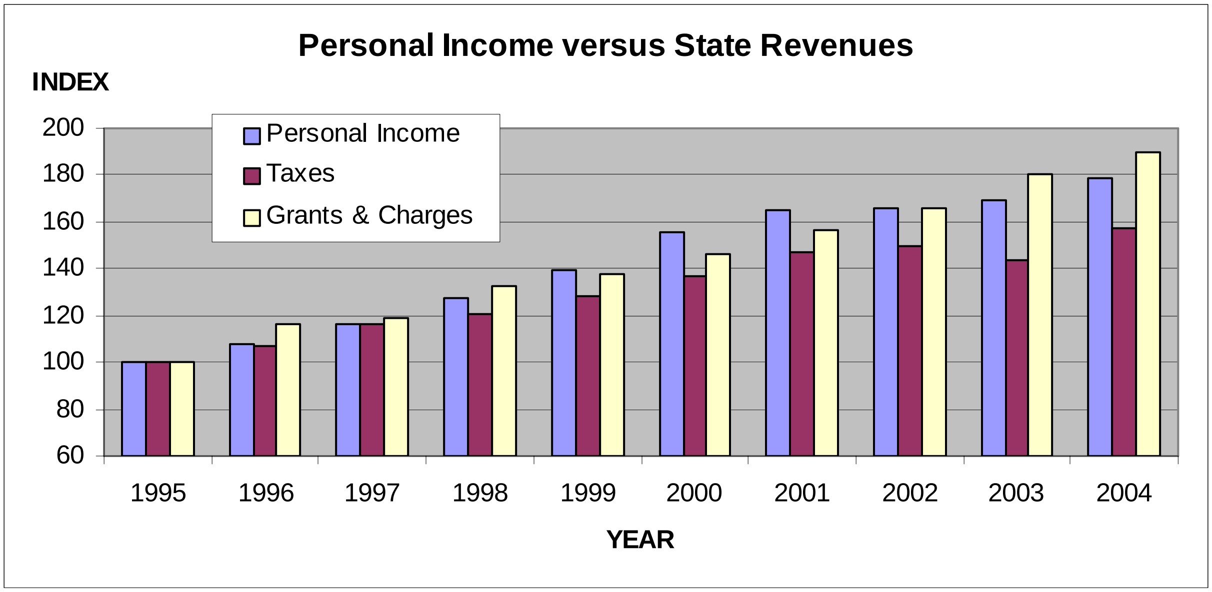
The State's financial condition can be measured in a simplified way by examining the change in its assets. Current assets are those that will be converted into cash in less than one year and current liabilities are those that will have to be paid from that cash. The current ratio is a measure of the State's ability to meet its obligations as they come due within the next fiscal year; the higher the current ratio, the greater the financial capacity to meet these obligations.

	FISCAL YEAR		
Dollar amounts in thousands	2004	2003	2002
Current Assets	$ 3,885,959	$ 3,308,011	$ 4,286,814
Current Liabilities	(2,555,692)	(2,129,082)	(1,930,848)
Working Capital	$ 1,330,267	$ 1,178,929	$ 2,355,966
Current Ratio	1.52	1.55	2.22
Total Assets	$ 24,049,505	$ 22,556,659	$ 22,376,502
Total Liabilities	(6,625,599)	(5,916,078)	(5,144,130)
Net Assets	$ 17,423,906	$ 16,640,581	$ 17,232,372
Change In Net Assets	$ 605,136	$ (536,398)	$ 232,282
Prior Period Adjustments	178,189	(55,393)	$ (76,804)
Total Change in Net Assets	$ 783,325	$ (591,791)	$ 155,478
Restricted Net Assets	$ 16,066,576	$ 15,557,189	$ 15,809,536
Unrestricted Net Assets	1,357,330	1,083,392	1,422,836
Net Assets	$ 17,423,906	$ 16,640,581	$ 17,232,372

The Change in Net Assets for a government is similar to the Net Income After Taxes reported by a business in its financial statements. It is a short-term (one year) measure of change in financial condition and should be considered along with other information in determining the overall financial health of the State.

Although the total assets are substantially greater than the total liabilities, many assets are restricted as they are capital assets like prisons or roads, or they may be restricted by covenants that established them such as the assets of the unemployment fund which are restricted to pay unemployment benefits. The unrestricted assets are those assets that the state can expend on its choice of programs.

Total Revenues versus Personal Income



In the graph above, personal income in the state is compared to State tax revenues and all other state revenues. Calendar year 1995 was used as the base year for personal income and Fiscal Year 1995 was the base year for taxes and other state revenues. In the early years state tax revenues kept pace with personal income, but as the effects of TABOR (see TABOR later in this report) and cuts in state tax rates took hold, then tax revenue began to fall vis-à-vis personal income. They recovered slightly in FY 2004 as the economy and stock market both began to rebound, and because of legislation passed after the last Federal census that allowed the State to retain revenues lost in the previous decade due to the underestimate of the population change. The State retained approximately $374 million of taxes for FY 2004 it would have had to refund otherwise. This retention increased the index for taxes from 148.3 to 156.9 in FY 2004.

In Fiscal Years 2002, 2003, and 2004 fees, tuition, and other charges began to rise compared to personal income as the state courts have had to raise fees, and state institutions of higher education have raised tuition rates to make up for diminished General Fund contributions. In addition, Federal grants have increased, especially Homeland Security funding.

General Purpose Revenues

General purpose revenues of the State are accounted for in the General Fund and primarily include income, sales, and other taxes. General purpose means that the revenues are not restricted to fund specific programs, but are appropriated by the General Assembly at their discretion.

Dollar Amounts in Millions	Fiscal Year				
	2004	2003	2002	2001	1999
Income Tax					
Individual	$ 3,189	$ 2,945	$ 3,086	$ 3,867	$ 3,718
Less: TABOR Refund	-	-	-	(209)	(192)
Corporate	218	214	165	316	289
Net Income Tax	3,407	3,159	3,251	3,974	3,815
Sales, Use & Excise Taxes	2,005	1,914	1,962	1,809	1,775
Less: TABOR Refund	-	-		(719)	(750)
Net Sales, Use, & Excise Taxes	2,005	1,914	1,962	1,090	1,025
Estate Tax	47	53	73	83	60
Insurance Tax	176	171	155	142	129
Other Taxes	40	38	34	31	29
Other Revenues	92	141	97	108	116
Total General Revenues	$ 5,767	$ 5,476	$ 5,572	$ 5,428	$ 5,174
Percent Change Over Previous Year	5.3%	-1.7%	2.7%	4.9%	4.7%

Expenditures by department as a percentage of total general purpose revenues expended is shown in the following table:

	Fiscal Year				
Department	2004	2003	2002	2001	1999
Education	41.8%	40.1%	39.7%	37.3%	38.4%
Health Care Policy & Financing	21.6	19.6	18.8	17.9	17.9
Higher Education	10.2	11.9	12.9	13.0	13.5
Human Services	9.4	9.6	9.8	9.6	9.6
Corrections	8.5	8.3	7.8	7.3	7.2
Judicial	3.8	3.7	3.8	3.6	3.7
Revenue	1.0	1.2	1.2	1.4	1.3
All Others	3.7	5.6	6.0	9.9	8.4
	100.0%	100.0%	100.0%	100.0%	100.0%

K-12 and Higher Education have consistently made up over 50 percent of the State's expenditures of general purpose revenues. In recent years, as prison population and mandated costs have risen in K-12 education and Medicaid, the State has had to curtail its contribution to its public colleges and universities and eliminate the majority of its capital construction projects. The rise in state expenditures on K-12 education is driven by two constitutional amendments, commonly referred to as the Gallagher Amendment and Amendment 23. See the sections on each for a further understanding of how they effect State expenditures.

Annual Change in Total State Expenses by Function

The State's expenses are grouped into various functions for financial reporting purposes. Education, including state support for the institutions of higher education is the largest single state expenditure. The expenses in the following table from the Government-wide Statement of Activities, shows expenses from all sources of revenue including taxes, fees, bond proceeds, and Federal grants.

	FISCAL YEAR		Annual
	2004	2003	Change
General Government	$ 182,312	$ 263,180	-44.4%
Business, Community, and Consumer Affairs	1,532,941	1,662,923	-8.5%
Education	6,466,735	6,290,792	2.7%
Health and Rehabilitation	476,344	474,248	0.4%
Justice	930,864	966,237	-3.8%
Natural Resources	79,618	102,568	-28.8%
Social Assistance	2,951,529	2,827,778	4.2%
Transportation	743,990	888,142	-19.4%
Payments to Other Governments	1,674,416	1,687,006	-0.8%
Interest on Debt	9,625	16,219	-68.5%
Total	$ 15,048,374	$ 15,179,093	-0.9%

GALLAGHER AMENDMENT

In 1982 the voters of Colorado approved an amendment to the Colorado Constitution commonly called the Gallagher Amendment (Article X, Sec. 3(1)(b) of the Constitution). Implementation of this provision has resulted in more than a 50 percent cut since 1982 in the rate at which residential property is valued and taxed.

The actual value of taxable properties in Colorado is re-assessed every odd-numbered year, so that the values, which are taxed, are reasonably current. The Gallagher Amendment requires that during years when re-assessments occur, the assessment rate for residential property be adjusted so that the total statewide assessed value of residential property be maintained at the same ratio to non-residential property after adjustments are made for new construction. The intent of this provision was to stabilize the State's entire residential real property's share of the property tax base.

In 1983, when it became effective, the Gallagher amendment reduced from 29 percent the residential assessment rate to 21 percent of actual value, maintaining a 29 percent rate for all other classes. These rates resulted in approximately 45 percent of all property taxes in the state being paid by residential property, while the remainder, about 55 percent, was generated by non-residential property.

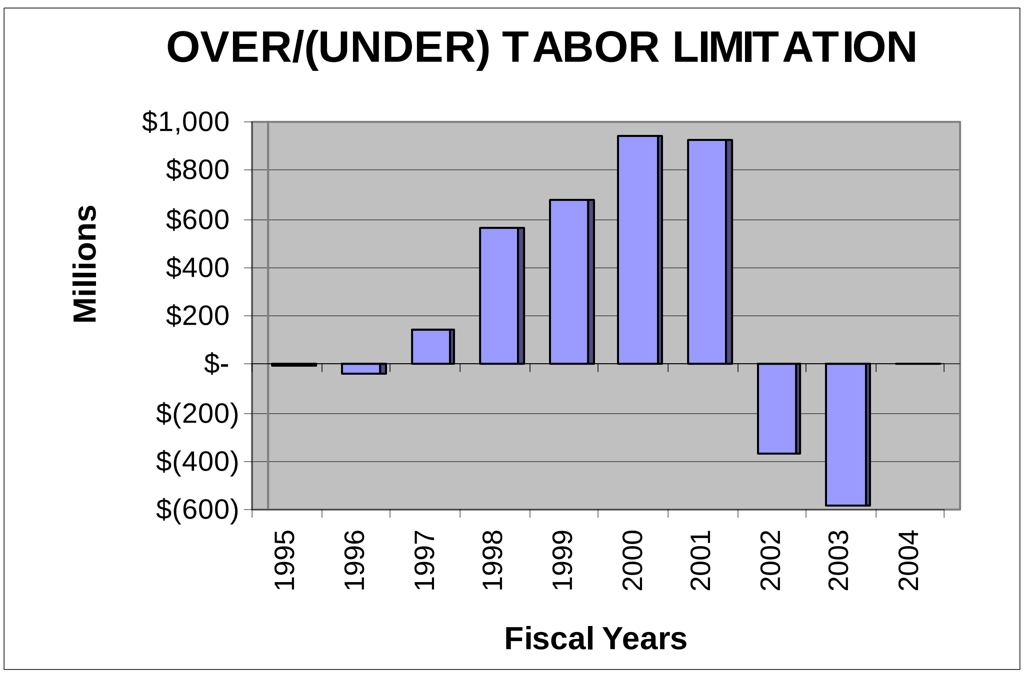
The effect of maintaining the 45/55 ratio was experienced immediately as the value of residential property increased during the 1990s relative to all other classes of real property. By 1997 the actual value of residential property had increased to 73 percent of all property. In order to maintain the assessed value at the 45/55 ratio, the assessment rate for residential real property had to be lowered each biennial until it reached 9.15 percent of actual value in 2002.

TABOR

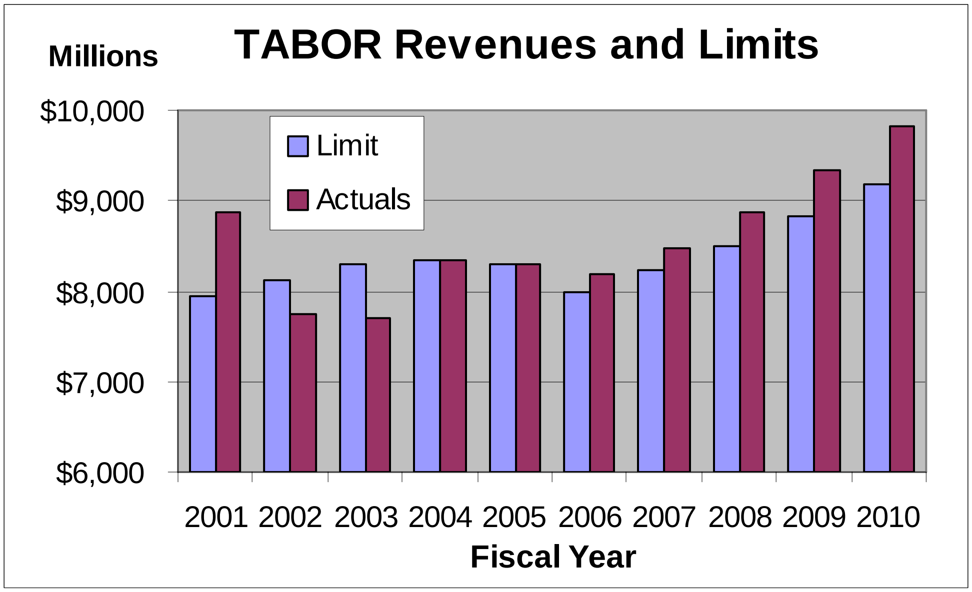
The voters passed the TABOR amendment to the Colorado Constitution in November 1992. The amendment removed the power of the General Assembly to raise taxes except in an emergency, and limited the amount of the tax and fee revenues the State could keep in any given fiscal year. The limitation in Fiscal Year 1994 was the Fiscal Year 1993 revenues not exempt from TABOR, multiplied by the sum of inflation and population growth as stated as a percentage.

After that, the limitation was the lesser of the previous year's TABOR revenues or TABOR limitation multiplied by the allowable growth percentage (inflation plus population growth). If the TABOR revenues exceeded the limitation in any given fiscal year, the Controller recorded a liability for the excess revenue, as it had to be refunded to the taxpayers in the following fiscal year.

In Fiscal Years 1994 through 1996 the State did not exceed the TABOR limitation primarily due to the General Assembly restricting increases in tuition and other state fee revenue. However, in Fiscal Year 1997 the State exceeded the TABOR limitation due to substantial increases in income tax revenues. In the ensuing years, the General Assembly reduced the State income tax rate from 5.0 percent to 4.63 percent, and the sales tax rate from 3.0 percent to 2.9 percent. That action coupled with a major change in the economy beginning in 2001 resulted in a substantial drop in state revenues. In Fiscal Year 2003 the State was under the TABOR limitation by $584.3 million



That lowered the base for computing the Fiscal Year 2004 limitation and all future revenue limitations. However, due to the Census Bureau underestimating the State's population growth in the 1990s,the General Assembly has decided to recapture the allowable growth that was never recorded. This is known as the growth dividend and is stated as 6.0 percent additional growth that will be allowable in the current decade. In Fiscal Year 2004, the State was neither over or under the TABOR limitation, because of the use of a portion of the growth dividend.



The chart above shows the potential effects of the growth dividend based on the Office of State Planning and Budgeting's forecasts for the TABOR revenues and allowable growth for the rest of this decade. Fiscal Years 2001 through 2004 are actual amounts while 2005 through 2009 are forecasts. Because of the growth dividend and adjustments made to the base because of over-refunds in the past it is anticipated that FY 2005 revenues will match the FY 2005 limitation. In FY 2006, the TABOR revenues will exceed the allowable growth for that year. The legislature has placed Referendum C on the November 2005 ballot, which, if passed by the voters, will allow the State to retain these excess TABOR revenues for a period of 5 years.

Amendment 23

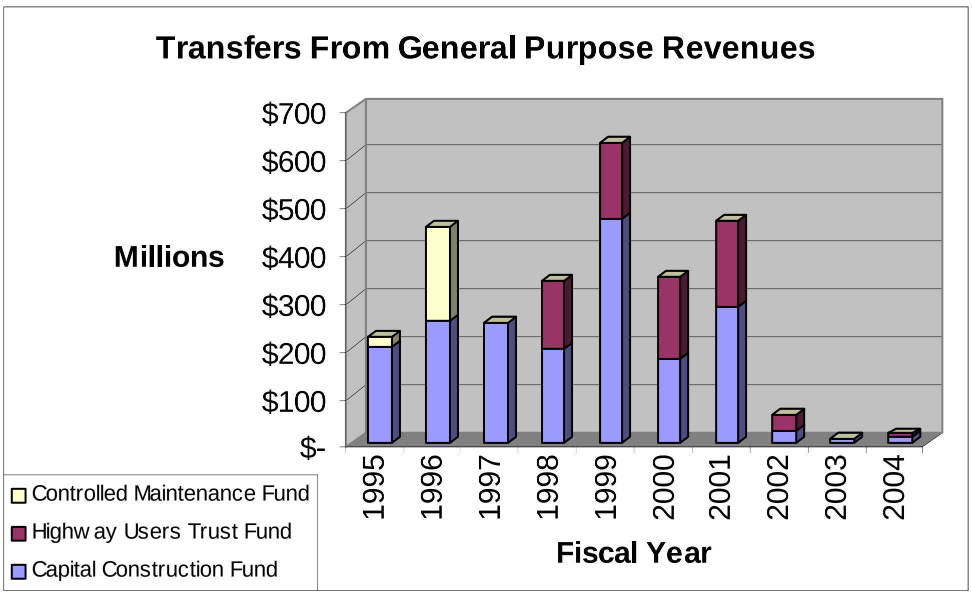
In 2000, the voters of Colorado passed Amendment 23, enacted as Article IX, Section 17 of the Colorado State Constitution. This law requires specific increases in K-12 public education funding every year. The law requires:

- Increased per pupil spending by at least inflation plus one percent for ten years (FY2001-02 through FY 2010-11) and by at least the rate of inflation thereafter;
- Increased total funding for all Categorical Programs (or special student population programs) by at least inflation plus one percent for ten years (FY2001-02 through FY 2010-11) and at the rate of inflation thereafter;
- Creation of a State Education Fund (SEF) to receive the revenues from a tax of one third of one percent (.33) of the state's annual Federal taxable income as modified by law. In other words, a portion of the state's existing income tax revenue is earmarked for education. Expenditures from the SEF are exempt from the Bird-Arveschoug limitations (not subject to the 6% statutory limitation on General Fund appropriations). The money in the SEF can be used to support the inflation plus one percent mandate mentioned above and/or to pay for additional categorical or new education programs; and,
- That the State's General Fund contribution to "Total Program" (total amount spent on students using state and local funds) is increased by a minimum of 5 percent annually for the next ten years unless personal income grows less than 4.5 percent between the two previous years.

Bird-Arveschoug

The Bird-Arveschoug statute, introduced in 1992, limits the growth in General Fund expenditures to 6 percent from the previous year, or 5 percent of personal income. When the TABOR amendment passed, this statute attained the weight of a constitutional limitation.

When the General Fund spending growth could easily be maintained at the 6 percent level; general-purpose revenues that could not be utilized due to the limitation were transferred to the Capital Construction Fund and the Highway Fund. In the 1990's when revenues were increasing rapidly, construction and other non-general fund spending was often increased at high rates. In the current recession when revenues have fallen, maintaining the 6 percent growth in general fund spending means that there is little if any General Fund money left over for non-general fund spending. As a result, construction projects have been delayed and new construction spending is limited.



During Fiscal Years 2002 and 2003, transfers-in from cash funds were used to maintain the spending growth in the General Fund. In Fiscal Year 2004 improved revenues stemmed the use of transfers to the General Fund. Current statute requires that reserves of the General Fund above the needed working capital reserve be transferred to the Capital Construction Fund and the Highway Users Trust Fund. Thus, if non general-purpose revenues grow at or near the TABOR allowable growth rate, Bird-Arveschoug may have little if any impact on state fiscal policies. This is because the 6 percent limit on the growth in General Fund expenditures will not be a binding constraint on the legislature, because that limit is above the limit imposed by the TABOR Amendment.